Federal Deposit Insurance Corporation (FDIC)

Loan to Own

Use this tip sheet to select a consumer installment loan that best fits your needs. This tip sheet covers the following topics:

- Comparing secured installment loans and rent-to-own services
- Weighing the decision to loan or lease
- Considering a home-equity loan

Tip #1:

Compare Secured Installment Loans and Rent to Own Services

Use the following chart to select the type of loan that best meets your needs:

Type of Loan	Description	Advantages	Disadvantages
Secured installment loan	Loans that are repaid in equal monthly payments for a specific period and are secured by the item you purchased.	You are charged interest and can shop for the best deal by comparing APRs. Less expensive than rent-to-own agreements.	
Rent-to-own	Allows you to use an item for a short period of time. You make weekly or monthly payments in exchange for using the item.	You do not have to purchase the item. No interest is charged and often no credit check is performed.	The store is the legal owner until you make the final payment. If a payment is missed, the store may repossess the property, which means you do not own anything. By making weekly payments, you will pay much more than if you paid by cash.

Tip #2:

Weigh the Decision to Loan or Lease a Car

There are many items that you can decide to loan or lease. The following chart breaks down the decision to loan or lease a car into three key areas of difference:

Area of Difference	Car Loan	Car Lease
Ownership	Car belongs to the bank that gave you the loan until you have paid off the loan. Then, the car becomes yours.	You are essentially renting the car from the dealership. The lease is like a rental agreement. You make monthly payments to the dealership. But the car does not belong to you. When the lease ends, you have to return the car to the dealership.
Wear and tear	No additional costs for wear and tear in your loan agreement.	Most leases charge you extra money for any damage they find at the end of the lease that goes beyond "normal wear and tear."
Monthly payments	Payments are higher; however, at the end of the loan, you own the car.	Payments are lower. This is because you are not purchasing the car; the dealership still owns it. Once your lease ends, you turn the car back in and the dealership can sell it or lease it to another customer. You may decide to purchase the car at the end of the lease; however, the total cost ends up being more than it would have been if you bought the car instead of leasing it.

Tip #3:

Consider a Home Equity Loan

A home equity loan allows you to borrow against the value of your home, if you own a home. The following are some tips to keep in mind if you are considering a home equity loan:

- Don't agree to a home equity loan if you don't have enough income to make the monthly payments.
- Don't let anyone pressure you into signing any documents; read and understand the closing papers carefully. Don't be afraid to ask questions.
- Remember to shop around for the best rates.
- Remember, all home equity loans that are secured by your primary home have a three-day cancellation period. This means you have three days to change your mind.